# Africa Oil & Gas 2010 survey update

*As a pre-cursor to our 2011 survey, we have compiled a brief market update covering key events affecting the industry since the release of our 2010 survey.*

*As expected, exploration activity in East Africa continues to gather momentum. Significant gas discoveries off-shore Mozambique and Tanzania have prompted new exploration activity across the entire region, including Kenya, Ethiopia and Somalia. In Uganda, Tullow's success continues since restarting its drilling programme after the resolution of the tax dispute with the Uganda Government.*

The African success story has, however, been tempered by events in North Africa, with continuing unrest and disruptions in the region. The relatively peaceful accession of Southern Sudan does, however, demonstrate that Africa can be more adept at resolving long-running conflicts peacefully. Negotiations regarding the division of oil reserves, related infrastructure and ultimately, oil revenues, are on-going.

Top of our respondents' concerns in 2010 was the impact of regulatory uncertainty in key markets such as Uganda, Ghana and Nigeria. While Ghana and Uganda are in the final stages of enacting new policies and regulation, the situation in Nigeria remains largely unchanged.

## Political upheaval in Africa

With a protracted campaign appearing more likely in Libya, the likelihood of long-term, extended disruption to supplies from Libya has increased significantly. While other OPEC members have already stepped up production to compensate for the loss of production from Libya, the low sulphur content crude that Libya typically produces poses more of a challenge than the replacement of the quantum of lost production.

Egyptian and Tunisian oil & gas supplies resumed fairly soon after initial supply disruptions and are likely to continue uninterrupted while the situation remains relatively stable.

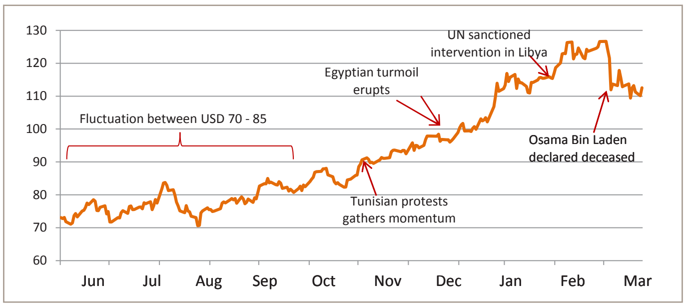
The accession of Southern Sudan creates another 'new' oil economy which inevitably gives rise to more uncertainty until a revised/ new policy and regulatory framework is negotiated between Northern and Southern Sudan.

North and South Sudan share a heavy dependency on oil, and a healthy petroleum sector is crucial to both governments. While the majority of current production occurs in Southern Sudan, the pipeline assets, refineries, export terminal, and human resources are predominantly located in Northern Sudan. The accession of Southern Sudan creates opportunities for Western oil firms to enter the market, which has historically been dominated by oil companies from the East, including China, India and Malaysia.

## Oil prices

The majority of our respondents forecast moderate increases in the price of oil over a 12-month period from July 2010. However, no-one could foresee the extent of turmoil and civil unrest in North Africa and parts of the Middle East which led to significant hikes in the oil price. From a low of just under $71 per barrel in late August 2010, the price of Brent crude broke through $90 per barrel in early December 2010, and breached $125 per barrel twice in April 2011. While the price has since decreased to around $115 per barrel, the future price of the commodity remains uncertain.

While the fundamentals of demand and supply have remained relatively stable despite the loss of 75%+ of Libya's total production, the market has been driven mainly by speculation and uncertainty over stability in the key North Africa and Middle East regions.




## Regulatory environment

While more clarity in the regulatory environment has been reached in some territories, legislative question marks in key areas such as Nigeria and Uganda are still unresolved.

Heritage Oil has commenced international arbitration proceedings in its dispute with the government of Uganda, while passage of the Petroleum Industry Bill remains subject to delays in Nigeria.

Legislators in 'fledgling' oil & gas economies such as Ghana and Uganda have acknowledged the need for local content and participation by local companies in the Oil & Gas economy. But details of specific content requirements and enforcement provisions are still being discussed.

The passing of the controversial Petroleum Industry Bill in Nigeria has been delayed until the formation of a new government. In the meantime, exploration activities in Nigeria have reached its lowest level in a decade. Several projects planned for implementation in 2009 and 2010 have now been delayed until 2014, at the earliest.

Implementation of the UK Bribery Act, which can have far reaching consequences for companies with links to the UK, has been delayed to July 2011. Companies operating in Africa with a presence in both the UK and US could find themselves exposed to censure under both the UK Bribery Act and the US Foreign Corrupt Practices Act. The UK Bribery Act also adds a new corporate offence of failure to prevent bribery.

The Department of Energy in South Africa has recently published a cleaner fuels discussion document. The discussion document takes a firm view that South Africa should move directly from Euro II compliant to Euro V compliant fuel standards by 2017. While the South African Petroleum Industry Association is largely supportive of the quantum leap from Euro II to Euro V compliant fuels, one of its key requirements is the development of a cost recovery model or incentive mechanism that will allow the industry to recover the costs of investments required to comply with the proposed fuel specifications.

## *Refining and marketing*

Angola has delayed the construction of the proposed Lobito refinery while it is reassessing the costs of the refinery. Construction may commence later in 2011, with a forecast completion date of 2015.

PetroSA's planned Coega refinery project plans have also been scaled back. A final investment decision is likely to be delayed until 2012 at the earliest. The Department of Energy in South Africa has, in the meantime, commenced a 20 year liquid fuels roadmap study due for publication before the end of 2011. This study should be instrumental in determining the need and ideal location for additional refining capacity in South Africa.

Elsewhere, both Zambia and Kenya are contemplating the future of their in-country refineries while the government of Uganda has committed to constructing a refinery to service the region; including Uganda, Southern Sudan, Rwanda, Burundi, Tanzania, the DRC and parts of Kenya.

In the marketing landscape, the oil majors such as BP, Chevron and Shell have all largely concluded sale agreements for the majority of their marketing assets in their sub-Saharan marketing operations. The big winners in the space, who have acquired the lion's share of assets put up for sale, include Engen, Puma Energy, and a joint venture between the Vitol Group and Helios Investment Partners LLP.

## *Resurgence of national oil companies*

The last nine months have seen governments agree to the establishment of new African NOCs in Malawi, Botswana, Gabon, and Uganda. The primary role of the NOCs in Malawi and Botswana will be to manage strategic fuel stocks and diversify liquid fuel supplies, while the NOCs in Gabon and Uganda will primarily be responsible for the management of reserves. The government of Tanzania has also announced a restructuring of TDPC, the national oil company of Tanzania. Elsewhere, ENI and PetroSA, South Africa's NOC have signed a co-operation agreement aimed at evaluating acquisitions of stakes in upstream projects in Africa.

NOCs control 90% of global oil reserves and 75% of global oil production. The resurgence of NOCs demonstrates the importance of NOCs in the global oil & gas industry, and the ambitions of some NOCs lead to them competing head-on with other oil companies on the domestic and international market. This will force NOCs to become competitive and demonstrate that they are creating value. A recent World Bank study into NOCs and value creation provides a useful value creation framework that NOCs should consider applying to measure and improve the value that they create for their stakeholders.

## *Other developments*

One of the most significant developments in the market has been the debate around shale gas extraction through hydraulic fracturing in South Africa. With technically recoverable reserves estimated at 485 trillion cubic feet (TCF) by the U.S. Energy Information Administration, and existing CTL and GTL refineries that could beneficiate the gas extracted, the South African shale gas plays look promising. There are, however, significant environmental concerns related to the hydraulic fracturing techniques associated with the production of shale gas.

Following extensive lobbying by environmental groups, farmers and land owners, the Department of Mineral Resources has recently declared a moratorium on exploration licenses in the Karoo basin, which is where the majority of shale gas reserves are anticipated. The Department will lead a multi-disciplinary team, including the departments of science & technology and trade & industry, to conduct further research on the potential impact of hydraulic fracturing.

## *Conclusion*

The last nine months have been particularly eventful from an industry point-of-view. While exploration activity in North Africa and Nigeria has been scaled back dramatically, the exploration boom in East Africa continues at a frantic pace.

The competitive landscape on the marketing front will continue to evolve as new participants start bedding down acquisitions and flexing their muscle in newly acquired territories.

Following a flurry of refinery announcements in 2010, the market seems to have lost impetus again, with no real concerted construction activities underway and refinery plans being delayed or cut back.

We look forward to engaging our survey participants to obtain their views on how these developments have impacted their business and how their outlook on the future has changed since 2010.

# Key contacts

*To have a deeper conversation about how PwC can assist your oil and gas business, please contact your local PwC energy specialist or:*

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